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## Entrepreneurial dynamics and social responsibility: mapping an expanded intellectual territory

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## **Entrepreneurial growth dynamics and social responsibility: a conceptual framework and a research agenda**

*Entrepreneurship is not simply about how one creates a business or the workings of the economy. It is far more about how we organise today's society. (Brenkert 2002: 33)*

*'[T]he essence of entrepreneurship is a change of state. And a change of state is a holistic process in which the existing stability disappears. When you try to take it apart, it tends to decompose.'* (Bygrave 1989: 23)

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### **Abstract**

**Objectives:** (1) To provide a constructive critique of the interface between the entrepreneurial growth dynamics research and social responsibility literatures; (2) to explore opportunities for making new connections between these literatures in order to address substantive 'gaps' in research and policy-making; (3) to map the broader intellectual territory implied by this critique; (4) to outline a tentative research agenda.

**Prior work:** The paper draws on two main strands of research: entrepreneurial growth dynamics and (corporate) social responsibility. While much has been achieved in the social responsibility literature with regards to established practices, we argue that insufficient attention has been paid to the more 'entrepreneurial' dimensions. At the same time, the current wave of enthusiasm for new models of socially-responsible enterprise has opened up a series of new research questions, including: (i) how are these organisational forms likely to grow and develop over the longer-term, at an intra-organisational level, and in terms of emerging inter-organisational relationships?; (iii) how will other actors respond to these developments?; (ii) what are the implications of the resulting dynamics for social, environmental and economic sustainability?

**Approach:** The paper is based around a critical review of the relevant literatures, focusing on the role of entrepreneurial opportunity and capabilities in shaping entrepreneurial growth dynamics. The discussion addresses current methodological debates and considers how social responsibility can be integrated into the analysis. In doing so, it builds on a research tradition that has promoted historically-informed multi-level and co-evolutionary analysis and argues that such techniques are required in order to gain a better understanding of these phenomena.

**Results:** We outline a research agenda, illustrated with a number of questions of particular relevance to researchers, policy-makers and practitioners

**Implications:** The paper identifies a number of issues for researchers and policy-makers and practitioner audiences. It calls for a broadening of the intellectual territory around socially-responsible enterprise. Process-based and multi-level analysis of growth dynamics extends its temporal and organisational boundaries to encompass longer-term interactions and a wider range of actors.

**Value:** The paper is designed to facilitate and to encourage more constructive interaction between research communities concerned with: social responsibility, social enterprise and process-based approaches to entrepreneurship. It advances understanding by mapping an intellectual space that is neither fully revealed in, nor adequately addressed by, existing bodies of knowledge.

# 1 Introduction

The early 21<sup>st</sup> century has seen a renewed interest in the relationship between entrepreneurial activity and social responsibility. After three decades, the ‘enterprise culture’ project is moving into less familiar territory. Entrepreneurial actors of various kinds, including prominent social entrepreneurs and socially-responsible corporations, are increasingly seen as providing solutions to entrenched social and environmental problems, ranging from social exclusion and drug abuse to species extinction and climate change. The contribution of socially-responsible entrepreneurial agency can be broken down into three core elements: (1) it generates innovative approaches to service delivery; (2) it builds them around financially-sustainable business models; and (3) the resulting organisational form is assumed to be growth-oriented, or (to adopt current terminology) readily ‘scalable’. In combination, these three elements represent the necessary precursors for achieving the large-scale, ‘systemic’ change required in these areas. The resulting discourse has engaged governments, corporations, non-governmental organisations and prominent entrepreneurs around the world. The enthusiasm is reflected in a growing collection of popular, and often visionary, writing, in which enlightened entrepreneurial organisations are portrayed as the primary vehicle for reforming contemporary capitalist systems, operating within the economic sphere, yet simultaneously engaging with social and environmental agendas in a purposive effort to engender positive outcomes (e.g. Hawken 1993, Bornstein 2004). These ideas are also being translated into policy and practice. For example, in the UK, traditional arenas for direct public and voluntary sector intervention (e.g. social housing, health, education, prisons), are becoming increasingly the province of social enterprises and commercial ventures, with the latter often framing their involvement around an explicit commitment to socially and environmentally responsible practices. For example, over the last nine years the government’s (City) Academies programme has encouraged private and social sector providers in England and Wales to establish new state-financed, yet independently-managed schools; there are currently 133 academies open in 64 local authorities, with up to 80 scheduled to open in 2009 and a further 100 in 2010 (DCSF 2009). Though the programme remains contentious, it is currently being reinforced through further rounds of investment and regulatory reform<sup>1</sup>.

The research community has responded in various ways to these developments. There has been an opening up of new fields, such as social enterprise, corporate social responsibility (CSR), and sustainable development. In addition, there has been a continuing contribution from researchers studying alternative organisational structures, including co-operatives, mutuals and voluntary sector organisations, and from ‘mainstream’ entrepreneurship researchers redeploying concepts to this new arena (e.g. Anderson and Smith 2007, Brenkert 2002, Dean and McMullen 2007, Haugh 2007). In this paper, we focus on the field of social enterprise, where much has already been achieved in a number of areas, including: identifying potential *performance* measures, evaluating *support* mechanisms, and comparing *governance* arrangements (e.g., Paton 2003, Lyon and Ramsden 2006, Spear *et al.* 2007, 2009). A recent extensive review of the field acknowledges the progress made in addressing such questions, but also highlights a number of areas where many questions remain. One of the areas highlighted by the authors relates to the growth of individual social enterprises<sup>2</sup>:

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<sup>1</sup> The government is currently adjusting financial requirements for Academy sponsors and making other changes designed to promote the expansion of this form of educational provision (DCSF 2008, 2009).

<sup>2</sup> Exceptions include an interesting exploratory study (Phillips 2006), which presents some empirical evidence on growth constraints, another empirical study, which appears to indicate commonalities in the development stages of three social enterprises, despite differences in their origins, history, markets and business structures (Bull *et al.* 2008), and two insightful case-based studies (Aiken 2006, Aiken and Slater 2007), which examine how

‘[T]he more established, mature and successful social enterprises tend to be held up anecdotally as success stories, but are less often the subject of systematic and analytical research efforts. This leaves a number of unanswered questions regarding the organisational development process at work in mature and successful social enterprises and the types of risk and challenge that they may face.’ (Peattie and Morley 2008: 30)

We share this concern. In the heat of the argument over the creation and current performance of these new ‘entrepreneurial’ models of social and socially-responsible provision, it appears that insufficient attention is being paid to longer-term *growth processes*, and to their relationship with social responsibility. In our view, it is also essential to examine growth processes *within and beyond the boundaries of the individual enterprise* in order to trace these interactions over time. One of the defining characteristics of any entrepreneurial organisation is a capacity to reconfigure and transform both its internal and external networks in pursuit of new growth opportunities. Researchers have long recognised the importance of these emergent and relational qualities, and their role in the growth process (e.g. Johannisson 2000). However, work is needed to draw out the implications of these insights for the growth of socially- and environmentally-responsible organisations, including (in the context of this paper) for social enterprises. From a policy perspective, it is still essential to improve techniques for monitoring current performance – measuring and evaluating outputs, outcomes and impacts of existing arrangements. In essence, our argument is that more attention needs to be paid to the entrepreneurial growth dynamics unleashed in these organisations, and how they play out over extended periods. If policy-makers can begin to combine current performance measurement with studies taking this ‘long view’ of development, they will be in a much better position to make informed decisions about alternative approaches to service delivery, including support mechanisms and governance models. Attention paid to shorter-term imperatives – finding the most effective solution to address current needs – would then be balanced by a more structured and nuanced analysis, incorporating the longer-run effects of a particular set of organisational arrangements. This paper therefore represents an initial attempt to apply a processual perspective in order to explore the relationship between entrepreneurial growth dynamics and social responsibility.

The objectives of the paper are to:

- (1) Present a constructive critique of the interface between the entrepreneurial growth dynamics and social responsibility, with reference to relevant literatures;
- (2) Draw on the conceptual frameworks identified in these literature in order to map an expanded intellectual territory, coupled with a tentative research agenda;
- (3) Encourage methodological discussion in this area, with the aim of contributing to a better understanding of entrepreneurial growth dynamics and social responsibility.

The paper is exploratory in nature. In part, this is due to the limited body of research addressing this topic. The task is also complicated by a number of factors. For example, while all organisations exhibit an internal growth dynamic, there is considerable variation in its degree of intensity. Organisations grow at different rates and in qualitatively different ways; similar variations are also evident in the growth dynamic of a single organisation, when it is tracked over discrete periods of time. Interactions between organisations generate further, and more complex, growth dynamics that operate at higher levels of analysis, such as

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isomorphic pressures may be influencing the development paths of social enterprises. In a related article (Spear *et al.* 2009) governance arrangements are related to several distinct development paths.

inter-organisational networks, geographic clusters and industry sectors)<sup>3</sup>. Another significant complicating factor, in comparison with ‘mainstream’ research on the growth process, arises from the need to integrate economic, social and environmental measures of sustainability. Entrepreneurial growth is often assumed to be beneficial, but it is widely recognised that it can give rise to negative outcomes for organisation and other actors (e.g. suppliers, host communities, the natural environment). In a seminal paper, the entrepreneurship scholar, Baumol (1990) used historical evidence to highlight a distinction between what he termed, ‘productive’, ‘unproductive’ and ‘destructive’ forms of entrepreneurial activity, relating them to prevailing institutional contexts. Baumol’s analysis confined itself to the economic arena, enabling him to make relatively straightforward distinctions between organisations (e.g. identifying rent-seeking behaviour as economically ‘unproductive’). This three-way categorisation is a potentially useful tool for analysing the relationship between growth and social responsibility, but it is likely to prove more difficult to operationalise once extended to encompass economic, social *and* environmental spheres (Section 2.3). Lastly, we recognise that much of the terminology used in this paper remain contested and open to multiple interpretations. In order to clarify our argument, we have adopted working definitions for the following concepts:

- **‘Social responsibility’** refers to the active and formalised engagement by an organisation with the any (or all) of the three imperatives of sustainable development (i.e. economic, social and environmental sustainability) within its own sphere of operations. The term, sustainable development is used despite its inherent limitations and internal tensions (Pezzoli, 1997; Robinson, 2004), in order to focus attention on the tangible dimensions of social responsibility (i.e. its ‘outputs’, or the way that it is enacted in practical terms), which can be more readily operationalised. However, it also allows for exploring the antecedents of social responsibility in conjunction with its longer-run impacts.
- **‘Entrepreneurial growth dynamics’** consists of two component terms: **Entrepreneurial** refers to the identification and appropriation of value-creating opportunities through the reconfiguration of resources and capabilities. Entrepreneurial judgement, under conditions of uncertainty, is integral to this process. Though often conflated in the mainstream literature, an important analytical distinction can be made between entrepreneurial and purely commercial activity (i.e. the ‘value-creation’ and ‘value-appropriation’ elements can be extended beyond financial returns to incorporate social and environmental gains)<sup>4</sup>. **Growth dynamics** refers to the underlying patterns of interactions that are responsible for generating quantitative and qualitative changes in organisations. These interactions take place within and beyond administrative boundaries (i.e. they operate across intra- and inter-organisational networks). They also generate emergent phenomena, which are not reducible to their component elements. Growth dynamics can be distinguished from related concepts, including ‘factors’ that are thought to promote or inhibit growth (i.e. independent variables, such as market demand) and growth indicators (i.e. dependent variables, such as sales turnover or employee numbers)<sup>5</sup>.

<sup>3</sup> See, for example, Michael Best’s (2001) depiction of ‘cluster dynamics’ and its role in generating regional competitive advantage. The resulting interplay between micro- and macro-levels is often described as ‘co-evolutionary’ (e.g. Barnett and Burgelman 1996, Lewin and Koza 2001).

<sup>4</sup> This working definition of entrepreneurial activity builds on numerous canonical sources (Swedberg 2000, Casson *et al.* 2006). The emphasis on entrepreneurial judgement derives from Casson (1982). For a recent empirical application, see: Casson and Godley (2007).

<sup>5</sup> A further distinction can be made between growth dynamics and the way that the growth process is conceptualised (e.g. using life-cycle or evolutionary metaphors). Appendix 1 provides a brief summary. For a more extended discussion, see: Freel (2000), Blundel (2009).

Recent contributions to the social enterprise literature have emphasised that ‘socially-responsible’ activities are found in a variety of organisational contexts, often blurring the boundaries between the public, private and third sector (e.g. Reid and Griffith 2006, Spear 2006, Shaw and Carter 2007, Peattie and Morley 2008). In seeking to explore the relationship between entrepreneurial growth dynamics and social responsibility, it will be necessary to range across these conventional organisational, sectoral and academic boundaries. Consequently, while the present paper focuses on social enterprises, it is important to emphasise that the scope and the implications of the argument extends to well beyond this field, and could equally be applied to other organisational types and in other sectors.

The remainder of the paper is organised as follows. In Section 2, we indicate how the existing literatures on entrepreneurial opportunity and organisational capability can be drawn upon in order to explore the relationship between growth and social responsibility. In Section 3, we discuss the methodological implications of the proposed conceptual framework and outline a research agenda. This is illustrated with a number of questions of particular relevance to researchers, policy-makers and practitioners.

## **2 In search of the ‘socially-productive’ entrepreneurial opportunity**

This exploration of the unfolding relationship between entrepreneurial growth and social responsibility builds on an established strand of entrepreneurship research that has made connections between the concepts of entrepreneurial opportunity and organisational capabilities (e.g. Penrose, [1959] 1995; Zahra *et al.*, 2006; Kor *et al.*, 2007; Alvarez and Barney, 2008). In the following sub-sections we introduce the main concepts and indicate how they can be modified in order to better inform our research questions.

### **2.1 Entrepreneurial opportunities as a distinctive domain**

The concept of entrepreneurial opportunities has proved particularly important in identifying the central domain of entrepreneurship. The following widely-cited definition, with its explicit focus on the pursuit of opportunity, provides for a distinctive field of study:

‘Entrepreneurship is a process by which individuals – either on their own or inside organizations – pursue opportunities without regard to the resources they currently control.’ (Stevenson and Jarillo 1990: 23)

Venkataraman (1997: 120) has extended this opportunities-based definition, identifying the central question in entrepreneurship as being, ‘seeking to understand how opportunities to bring into existence future goods and services are discovered, created and exploited, by whom and with what consequences.’ The intensification of research efforts oriented around this agenda, coupled with the growing interest in dynamic capabilities, has resulted in a shift in mainstream entrepreneurship towards its sister field, strategic management. The terms ‘entrepreneurial management’ (the sub-title of Stevenson and Jarillo’s (1990) article) and ‘strategic entrepreneurship’ have become widely-adopted in research papers and reproduced through countless graduate classes. The link has gained further legitimacy with the recent launch of the *Strategic Entrepreneurship Journal* (SEJ), designed to complement its well-regarded stable-mate, the *Strategic Management Journal* (SMJ). In their opening article, the *SEJ*’s editors re-emphasised the focal role of opportunity, but also made an interesting connection between opportunity and the wider social impact of entrepreneurial activity:

‘Entrepreneurship is a process centrally concerned with notions of opportunity, its recognition, discovery and/or creation. Opportunity is defined as the creation of new value to society in part or whole.’ (Schendel and Hitt 2007: 1).

The implications for social responsibility were reinforced in a subsequent comment, ‘What makes entrepreneurship strategic is adding new value to society, i.e., changing societal life in ways that have significant, sustainable and durable consequence.’ (*ibid*: 2). The renewed interest in entrepreneurial opportunity, and its relationship with social responsibility prompts a number of questions. For example, to what extent is entrepreneurial opportunity a *subjective* versus an *objective* phenomenon? (Foss *et al.* 2008; Kor *et al.* 2007). In other words, do opportunities exist independently of the organisation, as opposed to existing in the minds of the people in control of an organisation? Since entrepreneurial opportunity does appear to have a strongly subjective component, attention has turned to the strategic actors. How are their perceptions informed and shaped? What roles are played by, for example, the ethical values of the individuals concerned? (e.g. Teal and Carroll 1999, Bucholz and Rosenthal 2005), the organisation’s current operating environment (e.g. Aiken 2006, Aiken and Slater 2007), or the pattern of its historical development? While each of these questions merits further investigation, our focus is on the historical perspective. More specifically, we want to examine the influence exerted by an organisation’s (or intra-organisational network’s) prior development. This leads us into a discussion of organisational capabilities.

## 2.2 Organisational capabilities, dynamic capabilities and entrepreneurship

Organisational capabilities are often treated as analogous to practical skills acquired by an individual, enabling her to achieve a particular objective, such as painting a picture:

‘Capabilities fill the gap between intention and outcome, and they fill it in such a way that the outcome bears a definite resemblance to what was intended.’ (Dosi *et al.* 2000: 2).

However, at an organisational level, the relationship between intention, such as the pursuit of an entrepreneurial opportunity, and outcome is more complex. The process is likely to involve a greater number of people, with different perceptions and motivations, and also a wider variety of resources employed to facilitate the relevant action. It is also likely to be more extensive in terms of time and geography, compared to its individual-level counterpart, requiring activity that is co-ordinated and often repetitive in nature (Nelson and Winter 1982). Organisational capabilities are often categorised into two distinct but related types<sup>6</sup>. Substantive capabilities are generally understood to mean the capabilities needed to conduct an organisation’s on-going activities. These are relatively easy to illustrate, at least in general terms. For example, for a fresh food retailing organisation to operate successfully, there is a requirement for substantive capabilities in merchandising, managing a cool chain, customer service etc. Dynamic capabilities, in contrast, refer to an organisation’s capacity to *reconfigure* its substantive capabilities in order to achieve different strategic goals. The role of intentionality is clear in the following definition of dynamic capabilities:

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<sup>6</sup> Zahra *et al.*, (2006: 921) find the dynamic capabilities literature to be, ‘riddled with inconsistencies, overlapping definitions and contradictions.’ The authors also reject the notion that dynamic capabilities can be defined as substantive capabilities in volatile environments (Teece *et al.* 1997). The conflation of substantive and dynamic capabilities would remove the opportunity to examine their inter-relationship empirically (Zahra *et al.* 2006: 921-922, 946-947).

'[T]he abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision makers.' (Zahra *et al.* 2006: 918)

As several authors have pointed out, this interpretation of dynamic capabilities locates them at the heart of the strategic change process. With its emphasis on principal decision makers, the concept also draws attention to the extent to which key actors are able to exercise strategic choice (or entrepreneurial judgement), given the structural conditions operating in a particular organisational context (Casson 1982, Child 1997). An interest in interaction of entrepreneurial opportunity and capabilities can be traced through the work of several prominent 20<sup>th</sup> century entrepreneurship scholars including Penrose, Hayek, Shackle and Schumpeter (Spender 1994, Swedberg 2000). In this tradition, the recursive interplay between subjective perceptions of opportunity and the capability development provides the driving force for a holistic and inherently dynamic entrepreneurial growth process (Bygrave 1989, Foss *et al.* 2008, Kor *et al.* 2007, Penrose ([1959] 1995)<sup>7</sup>. Penrose was acutely conscious of the lack of conceptual clarity with respect to entrepreneurship. She attempted to clarify this 'slippery concept', by distinguishing what she termed 'entrepreneurial' and 'managerial' services (Penrose 1959: 33-41), which correspond closely to current understandings of dynamic and substantive capabilities. In a rarely-cited discussion, entitled 'The Quality of Entrepreneurial Services', Penrose makes an explicit link between this process and the creation of new productive opportunity: 'Many of the most important services that a firm's entrepreneurs can produce are not the result of "temperamental" characteristics of the individual men but are shaped and conditioned by the firm itself [...] for the "production" within the firm of an important class of entrepreneurial services is a significant aspect of its changing productive opportunity'. (Penrose 1959: 35). In our view, this combination of organisational capabilities and entrepreneurial opportunities has the potential to provide further insights into entrepreneurial growth dynamics, including its relationship with social responsibility.

### 2.3 Opportunity, capabilities and social responsibility: methodological challenges

The initial step in attempting to apply these concepts empirically, is to consider what (if anything) may be distinctive about the growth dynamic in the context of socially- responsible activity. There is very little published work addressing this question, but it seems plausible that the fundamental performance characteristics of dynamic capabilities, including the ways that they interact with substantive capabilities, will be broadly similar, irrespective of context. If there are differences to be identified, they are more likely to revolve around the opportunity, and its role in the process. As others have indicated, 'social' (as opposed to economic) opportunities are difficult to conceptualise. In the most detailed examination conducted to date, Zahra *et al.* (2008) make a number of important points about the conceptualisation of social opportunities. For example, the authors note that, 'social opportunities are inherently fraught with vagueness,' and that definition is, 'further complicated by its merger of economic and non-economic aims.' (*ibid.*: 120-121). The authors apply the behavioural theory of the firm as a counter to formal economic definitions of social improvements. They identify five characteristic features of social opportunity: 'Prevalence', 'Relevance', 'Urgency', 'Accessibility', and 'Radicalness' (*ibid.*: 121-125). As the authors conclude that the multiplicity of criteria increase the complexity of strategic decision-making. In their view, this might also explain an observed tendency towards satisficing behaviours on the part of some social entrepreneurs. This study indicates a number of factors that socially-responsible organisations may take into account when evaluating

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<sup>7</sup> Penrose's synthesis had its roots in Austrian economics and in Penrose's response to the disjunction between neoclassical economics and her empirical observations on the growth of firms (Kor *et al.*, 2007, Kay 2002).



social opportunities. However, it does not address the *process* through which the resulting strategic decisions are enacted. The approach that we have outlined provides the necessary process-based complement. The integrated opportunity-capability framework, which is largely derived from Penrose ([1959] 1995), provides a vehicle for tracing the ways that organisations grow through their pursuit of social opportunities. It uses a process perspective to connect the subjective and objective dimensions of opportunity. Though organisations may operate in superficially similar environments, managerial perceptions of what constitutes a ‘productive’ opportunity for *their* organisation are a product of historical patterns in the development of its organisational capabilities. A recursive interaction between the two gives rise to situated (or context-specific) opportunities. In pursuing these opportunities, those in control of the organisation apply dynamic capabilities in order to reconfigure the organisation’s substantive capabilities around the newly-perceived opportunity. This, in turn, gives rise to a pattern of growth dynamics that is unique to each organisation<sup>8</sup>. We propose the term, ‘socially-productive opportunities’ to reflect these distinctive characteristics, and to signal their Penrosian heritage.

It seems likely that one of the most intractable methodological challenges will relate to the tensions set up by the simultaneous pursuit of ‘commercially’ and ‘socially’ productive opportunities (cf. Spear 2006, Seanor *et al.* 2007, Orlitzky *et al.* 2003, Venkataraman 2002). Though it is possible to identify empirical examples to illustrate apparently ‘pure’ types (e.g. trading innovative financial derivatives, campaigning to modify environmentally-destructive practices), entrepreneurial opportunities frequently comprise both elements to varying degrees (e.g. producing and marketing fairly-traded goods, developing less carbon-intensive products and processes). The limited research evidence available suggests that where the two aspects appear together, they are inter-twined, and cannot be readily distinguished analytically. This is a question with considerable practical, as well as theoretical, significance. Consider an organisation that engages in a combination of commercial and philanthropic activities. The organisational capabilities applied to these opportunities are often distinguished administratively (e.g. commercial organisations establishing charitable trusts and charities operating trading arms). Though such distinctions may be incomplete, they may provide a point of entry for researchers to probe entrepreneurially-driven reconfigurations, in which the strategic focus of an organisation shifts over time, re-orienting itself in favour of one form of opportunity or the other. To illustrate this kind of re-configuration and the related organisational transition, we present a (highly simplified) account of the demutualisation of the United Kingdom’s building societies, which has taken place in the last two decades. This reconfiguration represents a transition in which the main movement is *away* from a pursuit of socially-productive opportunities and *towards* commercially-productive opportunities. A similar approach would be adopted in order to analyse re-configurations that operate in the opposite direction:

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<sup>8</sup> Though not elaborated upon here, a similar set of interactions can be identified at the level of the inter-organisational network, generating similar effects. See, for example Best’s (2001) discussion of cluster dynamics.

### Case illustration: the de-mutualisation of UK building societies

The UK's building societies were social-purpose organisations, with a history dating back to the mid-19<sup>th</sup> century and a reputation for probity, stability and accountability to their local communities. Though operating in commercial markets, their original status as mutual organisations had oriented them towards the entrepreneurial pursuit of *socially*-productive opportunities, which in this case involved the provision of a range of financial services to their members. This heritage became embedded in these organisations through a recursive process of Penrosian learning, which accumulated as distinctive repertoires of *substantive capabilities*, sets of relational structures, and bodies of 'concrete' or local knowledge, which guided their strategic choices. Though they might compete with commercial banks in certain markets, building societies had a distinct ethos and way of operating. Prior to demutualisation, the building societies had been engaged in a long period of consolidation, characterised by acquisitions and mergers, which eroded some traditional geographic allegiances. However, in the late 1990s, a number of these organisations embarked on an energetic period of expansion, sparked by their demutualisation and fuelled by access to new sources of equity finance. The following decade represented a radical discontinuity in the entrepreneurial growth dynamic of the organisations concerned, and of the sector as a whole. The period was characterised by an energetic pursuit of *commercially*-productive opportunities, often involving diversification into unfamiliar products and markets. The demutualised organisations attempted to apply *dynamic capabilities* in an effort to reconfigure their substantive capabilities in an effort to exploit their newly-identified opportunities. It seems plausible, though unproven, that these reconfigurations were instrumental in compromising traditional governance and control mechanisms<sup>9</sup>. In any event, the adventure ended dramatically. A series of financial collapses between 2007 and 2009 consumed the demutualised societies, prompting opportunistic acquisitions by domestic and foreign banks (Lloyds-TSB, Santander), and unprecedented government intervention, culminating in the effective nationalisation of several companies.

Of course, this case material is simply a brief summary, with many questions left unanswered. What are the antecedents, mediating factors, and consequences of such transitions? How might interventions by other actors (e.g. regulatory bodies) have influenced the outcome? It is in addressing questions of this kind that the conceptual apparatus of entrepreneurial opportunities and dynamic capabilities is most likely to demonstrate its explanatory potential. This would require a fully worked-out case study, drawing on a much more extensive array of primary and secondary data, including historical sources. The case material would be presented in the form of an analytically structured narrative, framed by the conceptual tools outlined in this paper, and other complementary ideas (e.g. the concept of institutional isomorphism, which would help researchers to locate the core entrepreneurial growth dynamic within a particular institutional field (Aiken and Slater 2007)).

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<sup>9</sup> The lack of control is evident from the published evidence. For example, the BBC's Business Editor recently referred to the, 'quite astonishing risks taken by HBOS', which contributed to £19bn of charges for business loans that 'turned sour'; representing 8% of all loans and advances in that area. As Peston noted, the lack of control cannot be attributed to innovation risks, 'And to be clear, this is not a newfangled, new age loss on impenetrable financial products such as collateralised debt obligations. This is an old-fashioned failure to kick the tyres properly when lending to hotel groups, property developers and investors who in the 1950s would have been called spivs.' ([http://www.bbc.co.uk/blogs/thereporters/robertpeston/2009/08/what\\_was\\_hbos\\_doing.html](http://www.bbc.co.uk/blogs/thereporters/robertpeston/2009/08/what_was_hbos_doing.html))

### 3 Exploring growth dynamics and social responsibility

‘There is less research into the evolution and development of social enterprise than for conventional commercial enterprises, and the focus tends to be on the establishment and initial growth of the social enterprise.’ (Peattie and Morley 2008: 27)

‘There is a real need for more and better research to build an evidence base that will assist policymakers, social enterprises, social entrepreneurs and communities to develop social enterprises that can fully deliver their potential contributions in social, economic and environmental terms, to create more sustainable and socially just communities and societies.’ (Peattie and Morley 2008: 56)

#### 3.1 Towards a research agenda?

While echoing these calls for more and better research, it would be unwise to rush headlong into a period of intensive empirical work in an area as complex, contentious and consequential as the relationship between entrepreneurial growth dynamics and social responsibility. Prior experience in mainstream entrepreneurship research should act as a caution against the use of over-simplistic conceptualisations of the growth process and its underlying entrepreneurial growth dynamics. In particular, it is important to pay attention to existing bodies of research that have highlighted the limitations of influential conceptual frameworks, including life-cycle and stage models (Freel 2000, Davidsson and Wiklund 2000, Blundel 2009). A combination of empirical research and methodological refinement is required in order to develop a more integrated and nuanced understanding of this relationship. In this paper, we have shown how the emerging literatures on entrepreneurial opportunity and dynamic capabilities provide a vehicle for exploring this core growth dynamic. We have also indicated how these concepts can be modified in order to probe the relationship between growth and social responsibility. Our longer-term aim is to integrate this dynamic with a multi-level, co-evolutionary analysis of the entrepreneurial growth process (Appendix 1). These combined approaches, and their associated methodologies, could help to extend the temporal and spatial boundaries of research on the growth dynamics of social enterprises, and of other kinds of organisations that are actively engaged with social responsibility, as previously defined. For example, it would be capable of encompassing longer-term interactions and a diverse range of actors. It would also enable researchers to track social responsibility over time, across formal organisational boundaries and through other transitions (e.g. ownership structures, network relationship, operating environments and institutional contexts). The combined approaches open up the possibility of addressing a number of important research questions, related to the interplay between social responsibility and entrepreneurial growth dynamics. The following examples indicate the kinds of questions we have in mind<sup>10</sup>:

#### Methodological questions

- How can concepts such as ‘social responsibility’ and ‘socially-productive opportunity’ be operationalised for the purposes of an empirical investigation?
- How can the implied requirement for longitudinal research, incorporating historical approaches, be reconciled with the more immediate demands of policy-makers?
- What are the implications of such research for broader conceptualisations of the growth process (e.g. the application of life-cycle and evolutionary metaphor)

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<sup>10</sup> We intend to present a more detailed example of an empirical study, currently in development, as part of the ISBE conference presentation.

### Policy-related questions

- How will the new generation of social enterprises develop over the longer-term, both at an intra-organisational level, and in terms of their inter-organisational relationships? <sup>11</sup>
- How will other kinds of entrepreneurial actor, including corporations engaging with the CSR agenda, respond to these developments?
- What are the broader implications of the resulting growth dynamics in terms of social, environmental and economic sustainability?

### Practice-related questions

- What practical tools might be developed to inform strategic decisions (e.g. investment, sourcing, partnering) in relation to their longer-term social and environmental implications?
- How can organisations maintain or enhance their longer-term performance in terms of social responsibility, whilst also addressing shorter-term requirements?
- What practical lessons (if any) are to be learned from historical case examples?

Our central argument in this paper has been that, despite advances in the entrepreneurship, CSR <sup>12</sup>, social enterprise and related fields, there is scope for more detailed, critical and comparative examination of entrepreneurial growth dynamics and their relationship to social responsibility over the longer-term.

## 3.2 Concluding remarks

In this paper, we have identified the conceptual foundations for exploring the relationship between the entrepreneurial growth process and social responsibility. It has done so by: (1) integrating concepts from previously distinct literatures; (2) outlining a potentially fruitful theoretical framework and associated methodology. There is clearly scope for further development, and it is important to highlight significant limitations. Above all, we would point to the lack of empirical studies that have applied a neo-Penrosian opportunity / capabilities approach to the topic of social responsibility. Further work is needed on how best to operationalise concepts such as ‘socially-productive opportunity’ in an empirical study of the growth process, particularly one that spans an extended period of time. These are significant challenges, but in addressing them there is also the prospect of informing a number of important and topical areas of policy. In making these connections between social responsibility, entrepreneurship, social enterprise and related literatures, we also hope to encourage more constructive interactions between the respective research communities. Accordingly, we would welcome comments on the ideas outlined in this paper.

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<sup>11</sup> For example, the entrepreneurial growth dynamics of several successful social and ethically-oriented enterprises have prompted a move into the private sector, or the transition from independent owner-managed firm to the status of a corporate subsidiary and brand. Recent examples in the UK include the acquisition of ECT Recycling, a waste management social enterprise, by May Gurney plc; and the purchase of Climate Care, a pioneering carbon-offsetting venture, by the US-based investment bank JP Morgan.

<sup>12</sup> While recognising its links to the corporate social responsibility (CSR) literature, further discussion lies outside the scope of the present paper. Aguilera *et al* (2007) introduced a multi-level perspective on CSR that sought to inject (much-needed) dynamism and contextualisation into this field (Blundel *et al.* 2010). We seek to build on that insight, by identifying multi-level analytical frameworks and methodological tools that are capable of exploring the interplay between entrepreneurial growth dynamics and social responsibility in different organisational and sectoral contexts, including those traditionally addressed in CSR research.

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## Appendix 1: Conceptualising the entrepreneurial growth process

Entrepreneurial growth lies at the heart of the ‘enterprise culture’ project, and over the last three decades it has established an extremely strong position in the public policy agendas of developed and developing countries. From the outset, there have been two parallel strands in growth research (Penrose [1959] 1995: 1; Davidsson *et al.* 2005: 1). The first strand comprises a number of themes, which may be grouped under the convenient summary term ‘factors of growth’ research. Work conducted in this strand is concerned the changes in amount that occur when a firm grows from one (smaller) size to another (larger) one. The change in amount is measured with reference to a particular indicator (e.g. sales or employment) or set of indicators. The main aim of this research strand has been to identify independent variables, or combinations of variables, that are associated with higher or lower rates of growth, the rates being defined with reference to the chosen indicator and a pre-defined time period<sup>13</sup>. The second strand, which is the main focus of this paper, may be termed ‘growth process’ research. Work in this strand is primarily concerned with detailing the growth process itself, rather than any particular measure of size, and with explaining the mechanisms that drive particular instances of the process. The pioneering theorist, Edith Penrose, clarified the meaning of the growth process in the following terms:

‘[A]n increase in size or an improvement in quality as a result of a *process* of development, akin to natural biological processes in which an interacting series of internal changes leads to increases in size accompanied by changes in the characteristics of the growing object.’ (Penrose [1959] 1995: 1)

Furthermore, she argued that a comprehensive theory of the growth of the firm. ‘must explain several qualitatively different kinds of growth and must take into account not only the sequence of changes created by a firm’s own activities but also the effect of changes that are external to the firm and lie beyond its control.’ (*ibid*: 5) While measures of size clearly remain relevant, researchers in this strand are therefore more concerned with the ways in which organizations move forward over time. As the above definition suggests, the growth process has many qualitative dimensions – changes also take place in the characteristics of organizations and in the directions that they take. These multiple changes connect with the other distinctive feature of work in the ‘growth process’ strand, that entrepreneurial growth can only be understood in systemic and relational terms (Johannisson 2000).

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<sup>13</sup> A brief summary cannot do justice to the wide variety of work that has been conducted under several distinct research agendas (e.g. isolating discrete ‘characteristics’ of high-growth rate firms, the *ex ante* prediction of high-growth rate firms – ‘picking winners’ – and identifying generic internal and external ‘barriers to growth’). For more detailed reviews see: Storey (1994); Delmar (1997); Davidsson and Wiklund (2000).